1970 Annual Report

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CANADIAN HYDROCARBONS LIMITED

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Montreal, Quebec
President, United North American Holdings Limited

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Calgary, Alberta
Petroleum Consultant

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Vancouver, British Columbia
Partner in the firm Gunderson, Stokes, Walton & Co.

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Tulsa, Oklahoma
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President and Chairman of the Board

Michael H. Finnell
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Vice-President, Finance and Treasurer

John G. Montgomery
Assistant Treasurer and Assistant Secretary

William A. Troughton
Secretary

John L. Farrell Jr.
Assistant Secretary

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Head Office
700 Three Calgary Place, Calgary 1, Alberta

Transfer Agent and Registrar
Montreal Trust Company, Calgary, Toronto and Montreal

United States Transfer Agent
Morgan Guaranty Trust Company of New York, New York

United States Registrar
Manufacturers Hanover Trust Company, New York

Stock Exchange Listings

Canada	*Toronto Stock Exchange*
	Montreal Stock Exchange
United States	*American Stock Exchange*

Annual Meeting
The Annual and a Special General Meeting of the Company will be held at Calgary, Alberta at 10:00 a.m. MST, May 17, 1971.

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CANADIAN HYDROCARBONS LIMITED
1970 Annual Report

FINANCIAL AND OPERATING HIGHLIGHTS

1968	1969	1970	Percent Increase 1969 to 1970	FINANCIAL
$ 3,860,336	$ 5,165,869	$ 6,126,078	19	Net earnings
7,116,511	9,582,176	12,978,468	35	Cash flow from operations
36,785,450	53,069,049	82,726,878	56	Gross revenue
657,136	635,959	643,391	1	Dividends on preferred shares
738,812	805,711	990,504	23	Dividends on common shares
				*Per share:
.76	1.01	1.11	10	Net earnings
1.52	1.99	2.49	25	Cash flow (after preferred dividends)
.175	.20	.20	—	Cash dividends
7,092,450	18,037,385	15,963,701	(11)	Working capital
20,960,339	30,618,490	42,876,152	40	Long term debt
48,638,057	56,874,585	73,958,658	30	Net investment in fixed assets
80,442,704	101,192,760	130,171,423	29	Total assets
4,241,808	4,949,972	4,956,872		**Number of common shares outstanding at year end

				OPERATING
109,163,000	117,310,000	144,729,000	23	Gallonage - propane and butane
15,178,000	62,952,000	174,384,000	177	Gallonage - gasoline and other petroleum products
12,162,718	12,664,311	14,393,828	14	Natural gas (MCF)
17,080,792	20,883,105	25,298,100	21	Electricity (KWH)
730	1,046	1,349	29	Average number of employees
1,981	2,573	2,932	14	Number of common shareholders

*** Based on average shares outstanding during each year adjusted for two-for-one stock split in 1969.**
**** Adjusted for stock split.**

Record Earnings and Cash Flow

Consolidated net earnings rose 19% to $6,126,078 and cash flow from operations rose 35% to $12,978,468. The equivalent per share results were net earnings of $1.11 and cash flow of $2.49.

77% Increase in Volume of Petroleum Products Sold

The volume of propane, gasoline, light oils and other petroleum products sold during the year increased 77% from 180 million gallons in 1969 to 319 million gallons in 1970.

Acquisitions in the United States and Canada

During 1970 Hydrocarbons acquired 3 companies in the United States: Westland Oil Company, a marketer of propane and other petroleum products in Montana and North Dakota with a refinery at Williston, and two lubricating oil blending plants, one at Minot, and the other at Blanchard, Louisiana; Big West Oil Company, a gasoline marketer operating in Montana, Idaho, and Washington, with a refinery at Kevin, Montana; and Sterling Stations, Inc., a retail marketer, operating large volume service stations in the Greater Seattle area.

A refinery and gas processing plant at Cut Bank, Montana was purchased in December.

In Canada, Hydrocarbons purchased 2 companies: a marketer of petroleum products throughout southern Saskatchewan and a large self-service gasoline outlet in Vancouver, British Columbia.

Increases in Marketing and Refining Facilities

As a result of acquisitions and internal growth, the Company now distributes propane, gasoline, light oils and other petroleum products through 460 outlets, 279 in Canada and 181 in the United States. Refining capacity has been increased to 16,300 barrels per day.

Utility Operations

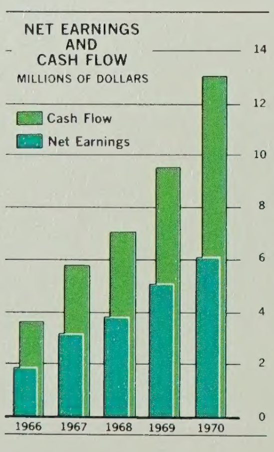
Utility operations were expanded to include 65 communities and 13 rural systems.

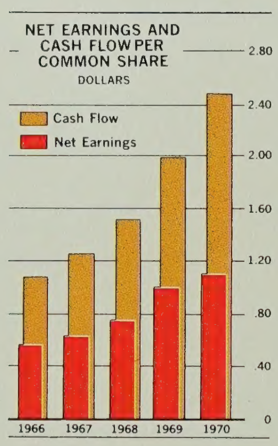
Colorado Uranium Mine in Production

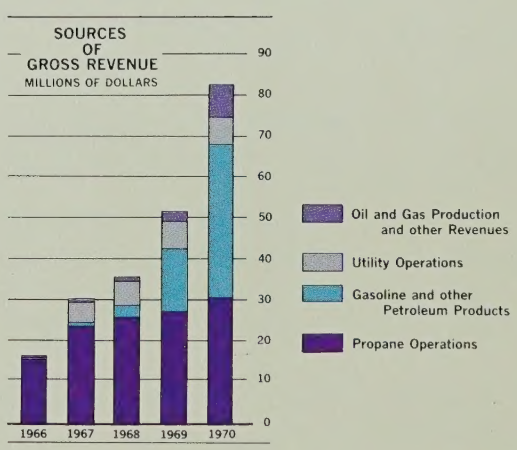
In September production commenced at the Company operated uranium mine in the Uravan District of Colorado, with production averaging 100 tons per day of high grade uranium-vanadium ore. Underground development at a second mine has commenced with production anticipated in the last quarter of 1971.

Common Share Dividend Increased to 25¢

Commencing with the March 31, 1971 payment, the Company's common share annual dividend rate was raised from 20¢ to 25¢.







REPORT TO SHAREHOLDERS

It is a pleasure to report that 1970 was a year of continued and significant growth for Canadian Hydrocarbons with records established in virtually all phases of the Company's operations. This performance was achieved in spite of the adverse economic conditions that prevailed in both Canada and the United States during the period under review.

Consolidated net earnings rose 19% to $6,126,078 from $5,165,869 in 1969, after a 44% increase in the provision for income taxes from $1,070,857 to $1,547,095. Earnings before income taxes increased 23% to $7,673,173. Cash flow from operations rose to $12,978,468, a 35% increase.

Earnings per common share were $1.11, a 10% improvement over the $1.01 earned in 1969. These earnings were based on the average number of common shares outstanding of 4,956,872 in 1970 versus 4,500,657 in 1969, a 10% increase. Cash flow per common share after preferred dividends was $2.49, a 25% improvement. These results were obtained from gross revenue of $82,726,878, compared with $53,069,049 for the previous year.

Working capital at December 31, 1970 was $15,963,701, compared to $18,037,385 at the end of the previous year.

Capital expenditures for the purchase of fixed assets totalled $13,258,896 for 1970 in contrast to $12,940,704 during 1969.

Total long term debt, before current maturities, at December 31, 1970 amounted to $45,305,653, of which $11,217,749 was represented by bank production loans. These production loans are repayable for the most part out of net production revenue from oil and gas sub-leases. Presently outstanding production loans should be repaid by 1975.

The interest on the remaining long term debt of $34,087,904, before current maturities, amounted to $2,018,820 for 1970, an average rate of 6.33%. This interest expense was covered 4.8 times by consolidated net earnings before income taxes and the interest. The repayment obligations on the remaining long term debt aggregate $6,299,326 over the next five years, averaging $1,260,000 per year.

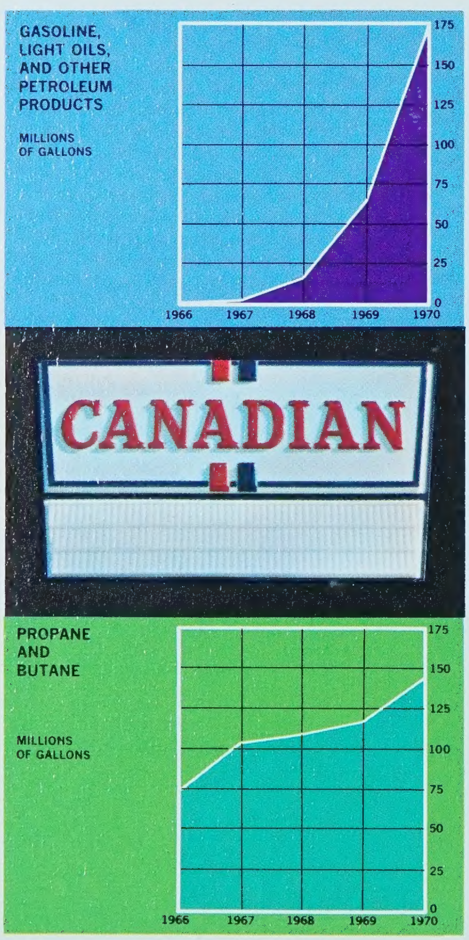
Dividends of $1,633,895 were paid in 1970, $643,391 on preferred shares and $990,504 on common shares. The 1970 common dividend was 20¢ per share. The annual common dividend was raised to 25 cents with the 12½ cent dividend paid March 31, 1971.

PROPANE, PETROLEUM MARKETING, REFINING AND ACQUISITIONS

Although a general slow down in the economy was experienced throughout Canada and the United States, Hydrocarbons significantly increased sales of all products and expanded its markets particularly in the United States. The volume of propane, gasoline and other petro-

leum products sold during 1970 amounted to 319 million gallons, a 77% increase over the 180 million gallons sold in 1969. The Company now operates 4 petroleum refineries with a combined daily capacity of 16,300 barrels, producing a broad range of products. In addition, the Company operates 2 natural gas processing plants with a combined daily capacity of 45 MMCF, as well as 2 lubricating oil blending plants. Canadian Hydrocarbons now distributes propane and other petroleum products through 460 outlets, 279 in Canada and 181 in the United States.

Gallonage



United States Operations

In accord with the Company's objective of establishing a fully integrated petroleum operation, several important acquisitions were made during the year. The purchase of Westland Oil Company in January, 1970 provided the necessary base organization and facilities to rapidly expand marketing and refining activities. In May, Hydrocarbons acquired Big West Oil Company of Montana, a refiner and marketer operating in the States of Montana, Idaho and Washington. The operations of this company were integrated into the Westland and the previously owned Economy Stations organizations. Subsequently, the Company acquired Sterling Stations, Inc., a retail gasoline marketer, operating large volume service stations in the greater Seattle area. In December, the Company's refining and natural gas processing facilities were further expanded with the acquisition of a crude oil refinery and a natural gas processing plant at Cut Bank, Montana.

United States operations now include 32 propane and 149 petroleum sales outlets. In addition, large volumes of product are sold to an increasing number of wholesale and industrial accounts. These greatly expanded marketing activities are supported by the Company's 3 United States crude oil refineries, having a combined capacity of 15,100 barrels per day. In addition, the 30 MMCF per day natural gas processing plant at Cut Bank produces natural gasoline, propane and butane.

All United States operating divisions are currently being consolidated under one administrative and operating group. This concentration of activities should result in cost savings through reduced expense and generally improved operating efficiencies.

Canadian Operations

Although propane, distributed through 156 outlets, remains the major contributor of both revenue and profit to Canadian operations, considerable progress has been made in expanding facilities for the marketing of gasoline and other petroleum products. During the year these outlets were increased by 31, for a total of 123 outlets.

The acquisition of a large self-service gasoline outlet in Vancouver, British Columbia, and a retail and wholesale distributor in southern Saskatchewan, both well established operations, augmented excellent internal growth in Canadian gasoline and petroleum operations.

Propane

Propane sales in 1970 established an all time record of 145 million gallons, an increase of 23% over 1969.

Top: Jumbo railway tank car loading propane at a gas plant in Alberta.
Left: A 13,330 gallon, tri-axle propane transport; largest of its type in Canada.
Above: One of the many varied uses for propane — a portable heating system for football players during late season games.

Product supply for Western Canada and the Northwestern United States appears to be more than adequate and it is expected that the cost of product will trend downward. Due to the large build-up of inventories in the United States, a surplus condition could possibly exist for the next two or three years.

Petroleum Refining and Marketing

The refining and marketing of gasoline, light oils and other petroleum products affords the Company a substantial growth potential as evidenced by 1970 operating results. The total volume of gasoline and other petroleum gallonage rose to 174 million gallons compared to 63 million gallons in 1969. Increasing emphasis is being placed on distributing a high percentage of total refining capacity through controlled marketing outlets. As volumes increase, continuous efforts are being made to improve operating procedures and marketing techniques. The results

of these efforts should become increasingly evident in 1971 and subsequent years.

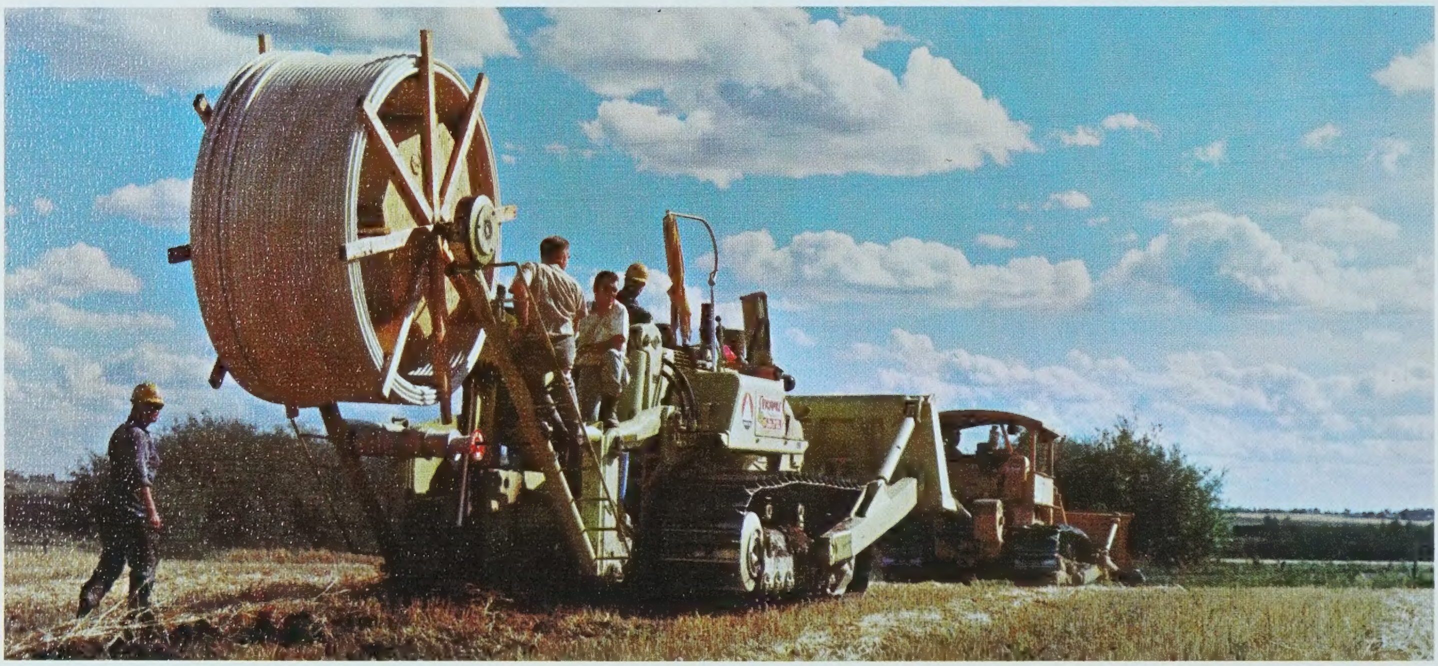
* * *

Over the past several years the Company's propane and petroleum marketing operations have experienced very rapid growth, largely through a series of acquisitions. This has necessitated a major re-organization of management responsibilities. During the past year, the management organizations of various subsidiaries have been restructured to effect the degree of control required to achieve optimum operating efficiency for both the present and planned expansion of propane and petroleum marketing operations.

UTILITIES

Utility natural gas sales during 1970 rose to 12,705,828 MCF from 11,039,311 MCF in 1969, an increase of 15%. The Company continues to attach as customers substantially all new construction in its service areas. The general slow down in residential construction was noticeable in the areas served, but this condition was off-set by increased usage of existing customers, particularly in rural systems, and by increased commercial and industrial sales.

Four new community gas service franchises were obtained during the year and the program of rural gasification was continued with the installation of 2 new systems. As well, extensions to previously established systems were completed. The Company now distributes natural gas to 64 communities and 13 rural systems.



Plowing in plastic pipe to provide natural gas to farms and rural communities in Alberta.

The volume of electricity distributed in the Town of Yellowknife, Northwest Territories increased 21% to 25,298,100 K.W.H.

The Company's utility operations, which now serve over 30,000 customers, demonstrated another year of record performance contributing a substantial increase in earnings over 1969.

CANADIAN HOMESTEAD OILS LIMITED

Under terms of the 1968 agreement with Canadian Homestead, a total of $2,903,475 has been spent through December 31, 1970 on exploration of Homestead properties, for which Hydrocarbons has received a total of 527,907 Homestead common shares at $5.50 per share. Hydrocarbons is obligated to spend an additional $6,096,525 by the end of December, 1974 to receive a further 1,108,459 Homestead common shares at the same price and has an option to acquire an additional 1,381,838 shares at $6.67 per share through 1977. Upon completion of this agreement, the shares acquired, combined with those held by Castle Oil & Gas Limited, a Hydrocarbons' subsidiary, will give the Company control of 51% of Homestead's then outstanding shares. Hydrocarbons now holds 1,122,807 shares of Homestead, representing approximately 25% of the presently outstanding shares.

Homestead's production of crude oil and condensates is running in excess of 2,200 barrels per day, while gas sales average 8 MMCF per day. An increase in oil production can be anticipated as a result of Homestead's recent success in the Meekwap area of Alberta.

Current land holdings of 17,000,000 gross acres are equivalent to 7,500,000 net acres.

Expenditures by Homestead for exploration and development in Western Canada have increased substantially in the last two years. Funds for these increased budgets have been derived from internally generated cash flow, from Hydrocarbons, and from a partnership arrangement which Homestead has with a group of United States investors. With continuance of these programs exploratory expenditures could exceed $4,000,000 per year.

Homestead's exploration is concentrated in Alberta, Saskatchewan and British Columbia; however, large blocks of exploratory permits are held in the frontier areas of Canada, Canadian Arctic Islands, Northwest Territories, offshore Eastern Canada and Hudson Bay. Exploration and maintenance of these large blocks are undertaken in most cases by other companies with Canadian Homestead's position carried through the primary exploration phase.

Petcal Company Limited, a wholly owned management and consulting service company, manages the affairs of Homestead and, in addition, provides property management, geological and field services from drilling through production. This organization operates 275 producing oil and gas wells, 4 gas plants and 8 enhanced recovery projects.

OIL AND GAS PRODUCTION AND EXPLORATION BY CANADIAN HYDROCARBONS LIMITED

Canada

Oil and gas production revenue, largely from sub-leases, amounted to $4,282,467 during 1970, an increase of $2,051,859 over 1969. Expenditures for exploration, development and production acquisitions totalled $6,010,000, not including exploration expenditures through Homestead. Hydrocarbons holds working and royalty interests in approximately 2,000,000 gross acres, equivalent to 330,000 net acres, of non-producing

oil and gas properties in Alberta, British Columbia, the Northwest Territories, the Arctic Islands and on the Grand Banks off Newfoundland.

In the Berland River area of northwest Alberta, where the Company in 1968 participated in a well that discovered gas in two zones of the Devonian system, two exploratory wells are now being drilled by other operators. These wells are located within 3 miles of the discovery and within 1 mile of acreage in which Hydrocarbons has interests. Hydrocarbons acreage holdings in this area, including leases, drilling reservations, and gas licences, total 26,400 acres, with the Company's interest varying from 8% to 12%.

In the last quarter of 1970, the Company participated in a Canadian exploration program projected through 1972, directed primarily toward the exploration for Devonian and Mississippian gas reserves in Alberta, British Columbia and the Northwest Territories.

United States

As a result of the Company's exploration and development program conducted in southwest Texas during the second half of 1970, Hydrocarbons has interests varying from 29% to 37½% in 5 producing gas wells. Additional development drilling is contemplated.

Portable bore hole drilling rig exploring for uranium in Colorado.

MINING OPERATIONS

United States

In September 1970 production commenced at the Company operated uranium mine in the Uravan District of Colorado. This mine is presently producing 100 tons per day of high grade uranium-vanadium ore. Proven reserves at December 31, 1970 were in excess of 50,000 tons, having an average grade of $35.00 per ton. Surface and underground exploration continues to develop additional reserves. The Company's consultant estimates that presently drilled properties will ultimately produce 100,000 tons of ore and all the Company's Colorado claims, including undrilled properties, will produce 300,000 tons.

Last November a new ore body was discovered about three quarters of a mile from the presently producing mine. Underground development at this second mine is now underway and production is expected to commence in the last quarter of 1971. Both mines are located on a block of acreage exceeding 13,000 acres. Another claim block totaling some 15,000 acres is being explored in the Lisbon Valley District of Utah. Hydrocarbons has a 40% interest in both properties.

* * *

The directors are grateful for the assistance received during the year from the Company's legal, financial and accounting advisors. The record performance of the past year was due in large measure to the ingenuity and dedication of the employees whose achievements demonstrate the Company's ability to meet the challenges of the industry even under adverse economic conditions.

On behalf of the Board of Directors,

President and Chairman of the Board

April 22, 1971

CANADIAN HYDROCARBONS LIMITED and subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS

Years Ended December 31, 1970 and 1969

	1970	1969
Revenue:		
Sales	$74,052,199	$47,811,268
Income from oil and gas sub-leases	3,904,382	1,877,985
Installation rentals	1,835,368	1,681,005
Interest and other income	2,934,929	1,698,791
	82,726,878	53,069,049
Expenses:		
Cost of sales	47,225,378	27,670,784
Operating, selling and administrative expenses	16,953,188	12,001,483
Interest and expense on long term debt	2,749,361	1,982,882
Other interest expense	748,834	318,473
Depreciation	3,394,609	2,766,022
Depletion	3,680,504	1,837,412
Minority interest in earnings of subsidiaries		
Preferred share dividends	170,711	178,046
Other	131,120	77,221
	75,053,705	46,832,323
Earnings before income taxes	7,673,173	6,236,726
Income taxes (Note 7)	1,547,095	1,070,857
Net earnings for the year	$ 6,126,078	$ 5,165,869
Net earnings per common share (based on average number of shares outstanding)	$1.11	$1.01

(See accompanying notes)

CONSOLIDATED BALANCE SHEET

December 31, 1970 and 1969

ASSETS

	1970	1969
Current:		
Cash	$ 1,804,481	$ 1,007,716
Short term deposits	14,740,806	15,827,025
Accounts and notes receivable	17,889,726	11,748,193
Inventories at lower of cost or replacement cost	8,191,791	4,492,664
Prepaid expenses	370,724	289,376
	42,997,528	33,364,974
Investments:		
Shares of Canadian Homestead Oils Limited (Note 2)	7,600,184	6,413,841
Other at cost	1,734,824	897,435
	9,335,008	7,311,276
Fixed at Cost (Note 3)	98,217,638	76,567,992
Less accumulated depreciation and depletion	24,258,980	19,693,407
	73,958,658	56,874,585
Other:		
Notes receivable from directors and officers	540,250	540,250
Debt financing and reorganization expenses less amounts written off	837,211	563,577
Cost of shares of subsidiaries over net book value at dates of purchase	2,502,768	2,538,098
	3,880,229	3,641,925
	$130,171,423	$101,192,760

On behalf of the Board:

R. A. Rich, Director.

David R. Williams, Jr., Director.

(See accompanying notes)

LIABILITIES

	1970	1969
Current:		
Bank loans and bankers' acceptances ($7,890,000 secured)	$ 11,355,961	$ 5,625,000
Accounts payable and accrued charges	12,425,977	6,709,366
Income taxes payable (Note 7)	184,152	562,014
Current maturities of long term debt (Note 4)	2,429,501	1,795,343
Deferred income	638,236	635,866
	27,033,827	15,327,589
Long Term Debt (Note 4)	42,876,152	30,618,490
Deposits	532,098	647,054
Deferred Income Taxes (Note 7)	752,498	171,580
Minority Interest in Subsidiaries (Note 5)	5,278,063	5,091,295

SHAREHOLDERS' EQUITY

			1970	1969
Capital (Note 6):				
Authorized —	250,000	first preferred shares, par value $20 each		
—	4,000,000	second preferred shares, par value $25 each		
—	14,000,000	common shares, no par value		
Outstanding —	228,755	5½% cumulative redeemable first preferred shares Series A (1969 - 232,255 shares)	4,575,100	4,645,100
—	256,100	6% cumulative redeemable second preferred shares Series A (1969 - 260,000 shares)	6,402,500	6,500,000
—	4,956,872	common shares (1969 - 4,949,972 shares)	22,905,760	22,868,410
			33,883,360	34,013,510
Retained Earnings (Note 8)			19,815,425	15,323,242
			53,698,785	49,336,752

Commitments and Contingencies (Notes 2 and 10)

	1970	1969
	$130,171,423	$101,192,760

CANADIAN HYDROCARBONS LIMITED and subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Years Ended December 31, 1970 and 1969

	1970	1969
Funds Were Provided From:		
Operations		
Net earnings for the year	$ 6,126,078	$ 5,165,869
Add — depreciation and depletion	7,075,113	4,603,434
— deferred income taxes	557,437	171,580
— other	(780,160)	(358,707)
Cash flow from operations	12,978,468	9,582,176
Shares issued		
Common	37,350	8,523,435
First preferred Series A		195,000
Disposal of fixed assets	598,215	364,970
Additional long term debt	16,453,138	11,486,120
Sale of Canadian Homestead Oils Limited shares		295,106
	30,067,171	30,446,807
Funds Were Applied To:		
Investment in subsidiaries	*10,262,821	* 382,327
Purchase of fixed assets	13,258,896	12,940,704
Dividends on common and preferred shares	1,633,895	1,441,670
Reduction of long term debt	4,896,005	1,922,945
Investment in Canadian Homestead Oils Limited	1,186,343	1,117,632
Redemption of first and second preferred shares	167,500	
Notes receivable from directors and officers		540,250
Expenses of debt financing, altering capital and issuing shares		422,362
Other	735,395	98,116
	32,140,855	18,866,006
Increase (Decrease) In Working Capital During the Year	$(2,073,684)	$11,580,801
*Comprised principally of the following:		
Fixed assets	$11,425,293	$ 132,072
Long term debt	(1,075,995)	(94,976)
Minority interest	(129,728)	
Other assets and liabilities — net	43,251	345,231
	$10,262,821	$ 382,327

(See accompanying notes)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years Ended December 31, 1970 and 1969

	1970	1969
Balance at beginning of year	$15,323,242	$13,933,842
Add net earnings for the year	6,126,078	5,165,869
	21,449,320	19,099,711
Deduct:		
Cash dividends		
First preferred shares	253,391	245,959
Second preferred shares	390,000	390,000
Common shares	990,504	805,711
Stock dividend		
Issued to second preferred shareholders		2,176,000
Expenses of altering capital and issuing shares, less applicable income tax reduction		158,799
	1,633,895	3,776,469
Balance at end of year	$19,815,425	$15,323,242

(See accompanying notes)

Auditors' Report

To the Shareholders of
Canadian Hydrocarbons Limited.

We have examined the consolidated balance sheet of Canadian Hydrocarbons Limited and subsidiaries as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants.

Calgary, Canada.
March 26, 1971.

Notes To Financial Statements December 31, 1970

1. Consolidation Policy

The consolidated financial statements include the accounts of Canadian Hydrocarbons Limited and all its subsidiaries. When subsidiaries are acquired the purchase price is allocated to assets based on appraisals and any remaining difference is recorded as "cost of shares of subsidiaries over net book value at dates of purchase".

As a result of the freeing of the rate of exchange between the Canadian and United States dollars during 1970, the Company has converted its investment in all United States subsidiaries together with all other United States assets and liabilities on the basis that $1.00 U.S. equals $1.03 Canadian. The resulting loss on conversion is not material and is included in earnings.

Certain of the 1969 accounts have been reclassified to conform with the 1970 classification of accounts.

2. Investment in Canadian Homestead Oils Limited

Under the terms of an agreement entered into between Consolidated Hydrocarbons Limited (a wholly-owned subsidiary) and Canadian Homestead Oils Limited in 1968, Consolidated Hydrocarbons is committed to expend $9,000,000 in the conduct of drilling and exploration operations on Homestead properties at the rate of approximately $1,500,000 per year to December 31, 1974. As consideration for such expenditures Consolidated Hydrocarbons will receive one common share of Homestead for each $5.50 so expended. Alternatively, Consolidated Hydrocarbons has the option to purchase shares from Homestead at a cost of $5.50 per share to the extent committed funds have not been expended. To December 31, 1970 Consolidated Hydrocarbons had expended $2,903,475 under the terms of the agreement, the equivalent of 527,907 shares of Homestead, of which 35,000 shares were sold during 1969. Expenditures during 1970 amounted to $1,186,343 (215,699 shares). In addition, Consolidated Hydrocarbons has the option to expend a further $9,212,000 on Homestead properties to December 31, 1977 in exchange for one common share of Homestead for each $6.67 so expended. Similarly, these shares may be purchased from Homestead at a cost of $6.67 per share.

In addition, the Company owns 83.5% of the outstanding shares of Castle Oil & Gas Limited, which company's principal asset is an investment of 629,900 common shares of Homestead.

Consolidated Hydrocarbons has granted options to employees of Homestead, dependent upon employment, to acquire 33,000 common shares of Homestead at prices ranging from $5.50 to $20.00 per share, exercisable on various dates to July, 1975, of which options to acquire 12,500 shares were issued during 1970. The Company also has an agreement to sell 5,000 shares of Homestead to an employee, dependent upon employment, during the period January, 1971 to January, 1973 at the market price at the dates of sale.

At December 31, 1970, the companies held 1,122,807 shares of Homestead, with a quoted market value of $8,000,000 which investment represents 24.6% of the outstanding common shares of Homestead at that date.

The quoted market value on March 16, 1971 amounted to $9,200,000.

3. Fixed Assets

	1970	1969
Customers' installations	$20,275,036	$19,061,395
Transmission lines and distribution systems	18,555,779	17,487,361
Buildings and equipment	19,655,358	13,090,977
Refineries and gas plants	8,172,774	1,999,095
Automotive equipment	7,207,572	6,425,327
Oil, gas and mining properties and equipment	6,882,561	5,720,565
Sub-leases on producing oil and gas properties	13,701,664	10,414,216
Land	3,766,894	2,369,056
	98,217,638	76,567,992
Deduct:		
Accumulated depreciation	18,593,409	16,013,481
Accumulated depletion	5,665,571	3,679,926
	24,258,980	19,693,407
	$73,958,658	$56,874,585

Depreciation of fixed assets, other than oil and gas properties and equipment, is provided on a straight line basis at rates varying from 2% to 20% which are designed to amortize the cost of the assets over their estimated useful lives.

All costs related to the acquisition of, exploration for and development of oil and gas properties, whether productive or non-productive, are capitalized and depleted on a composite unit of production method based on total estimated reserves of oil and gas. Sub-leases on producing oil and gas properties are depleted over their terms which range from three to six years. Mining properties are depleted on a unit of production method.

4. Long Term Debt

	1970	1969
6½% Sinking Fund Debentures, Series A, of Consolidated Hydrocarbons Limited, due 1981	$ 2,548,000	$ 2,730,000
6¼% Sinking Fund Debentures, Series B, of Consolidated Hydrocarbons Limited, due 1982	1,560,000	1,640,000
6½% Sinking Fund Debentures, Series C, of Consolidated Hydrocarbons Limited, due 1972 to 1987 ($3,071,000 U.S.)	3,163,130	3,299,406
6% Sinking Fund Debentures, Series A, of Great Northern Gas Utilities Ltd., due 1985	8,389,500	8,601,000
7¼% Promissory Note of Great Northern Gas Utilities Ltd., due 1974 to 1989 ($4,000,000 U.S.)	4,120,000	4,288,750
6% Sinking Fund Bonds, Series A, of Vancouver Island Gas Company Ltd., due 1976	276,000	321,521
5% Subordinated Notes of Thunderbird Petroleums, Inc., due 1976 to 1990 ($4,702,075 U.S.)	4,843,137	
5% Subordinated Debentures of Westco, Inc., $772,500 due in 1971, balance 1975 to 1989 ($5,238,900 U.S.)	5,396,067	
6¼% Promissory Note of Westland Oil Company, due 1975 ($785,000 U.S.)	808,550	
8% to 8½% Bank Production Loans of Consolidated Hydrocarbons Limited (secured by oil and gas properties), due 1976	11,217,749	9,458,037
Notes and Mortgages, due on various dates	2,983,520	2,075,119
	45,305,653	32,413,833
Less current maturities included in current liabilities	2,429,501	1,795,343
	$42,876,152	$30,618,490

In addition to the current maturities included in current liabilities, additional repayments of bank production loans will approximate $4,750,000 during 1971.

Long term debt repayments for the years 1972 to 1975 are as follows:

1972	$3,862,000
1973	3,008,000
1974	1,782,000
1975	1,612,000

Financing expenses are being amortized over the terms of the issues.

5. Minority Interest in Subsidiaries

	1970	1969
Preferred shares of Great Northern Gas Utilities Ltd.	$2,780,000	$2,855,000
Other companies		
Capital	1,168,974	1,034,139
Retained earnings	1,329,089	1,202,156
	$5,278,063	$5,091,295

6. Capital

The redemption provisions attached to the outstanding preferred shares require the Company to purchase for redemption, in each calendar year, $70,000 par value first preferred shares Series A (cumulative to a maximum of $140,000 in any calendar year) and $97,500 par value second preferred shares Series A (not cumulative), if available on the open market, at a price not exceeding their par value. The Company has satisfied such redemption obligations to December 31, 1970. In addition, the first preferred shares are redeemable at any time at a price not exceeding $21.10 per share and the second preferred shares are redeemable at any time after December 31, 1971 at a price not exceeding $26.50 per share. To December 31, 1970, 21,245 first preferred shares of an aggregate par value of $424,900 have been redeemed (3,500 of which shares were redeemed during 1970) and 3,900 second preferred shares of an aggregate par value of $97,500 were redeemed at par during 1970. Accordingly, consolidated retained earnings includes $522,400 designated as "capital surplus" under the provisions of the Canada Corporations Act.

Options to purchase 29,600 common shares were granted to officers and employees during the year under the Employees' Qualified Stock Option Plan, which was created in May, 1970. At December 31, 1970, 20,400 common shares were reserved for the granting of future options under this plan.

During 1970, the Company issued, on exercise of stock options, 1,000 common shares to an officer and 5,900 common shares to employees for cash considerations of $5,125 and $32,225 respectively.

At December 31, 1970 options were outstanding to officers and employees to purchase 84,228 common shares at prices ranging from $5.125 to $17.875 per share, exercisable on various dates to May 19, 1975.

In addition, share purchase warrants were outstanding at December 31, 1970 entitling the holders thereof to purchase 204,540 common shares of the Company at $13.50 per share until December 31, 1973.

7. Income Taxes

For income tax purposes the companies claim capital cost allowances (depreciation) and drilling, exploration, property and sub-lease acquisition costs in amounts which exceed the related charges to earnings. The companies are also entitled to claim drilling and exploration costs incurred under the share acquisition agreement with Homestead (see Note 2) which shares are recorded in the accounts at the amount of the total expenditures. As a result, income taxes in respect of income reported for 1970 and 1969 have been reduced.

The Company follows the practice of tax allocation accounting with respect to depreciation claims, except in the case of subsidiary companies engaged in the operation of public utilities which are required by regulation to record only income taxes payable in determining rates. During 1970, depreciation claims for tax purposes of non-regulated companies exceeded depreciation provided in the accounts and deferred income taxes of $580,000 were provided thereon.

The Company, in common with many other companies in the Canadian oil and gas industry, believes that tax allocation accounting of claims for drilling, exploration and acquisition costs is not appropriate, and accordingly, no provision has been made for deferred taxes on timing differences involving such costs. If the tax allocation basis of accounting had been followed for all timing differences between taxable income and recorded income the income tax provision would have been increased and net earnings for the year would have been decreased by $2,030,000 — $ .41 per share ($1,925,000 — $ .43 per share in 1969).

The accumulated income tax reductions related to all timing differences in the current and prior years amount to approximately $13,360,000 at December 31, 1970 ($10,800,000 in 1969).

Accumulated expenditures remain to be carried forward and applied against future taxable income as follows:

	1970	1969
Drilling, exploration and property acquisition costs	$ 2,255,000	$ 3,305,000
Undepreciated capital cost	31,305,000	25,595,000

The Canadian Federal Tax authorities have issued notices of re-assessment for the 1964 to 1967 fiscal years of subsidiaries disallowing certain deductions in arriving at taxable income. The re-assessments have been contested and the amount of the taxes and interest claimed, approximately $784,000, has not been provided in the accounts.

8. Dividend Restrictions

The provisions attaching to certain of the companies' long term debt and the preferred shares contain restrictions as to the declaration and payment of cash dividends on common shares, the most restrictive of which at December 31, 1970 limits the payment of such dividends to an amount which would reduce consolidated retained earnings to $7,500,000.

9. Additional Statutory Information

Canada Corporations Act

The Company has eleven directors and six officers who were paid the following remuneration during 1970:

	Directors	Officers	Total
Paid by the Company	$21,600	$176,509	$198,109
Paid by subsidiaries	14,350	42,050	56,400
	$35,950	$218,559	$254,509

Two officers, who are also directors, received no remuneration in their capacity as directors.

The Securities Act of Ontario

The remuneration paid to directors and senior officers of the Company during 1970 (including the five highest paid employees) amounted to $333,826.

10. Commitments and Contingent Liabilities

In addition to the commitments outlined in Note 2, the companies have entered into long term contracts to lease certain fixed assets at annual rentals of approximately $375,000 to 1990.

Reference is made to Note 7 respecting details of pending income tax re-assessments involving approximately $784,000 in taxes and interest which has not been provided in the accounts.

Ten Year Review

SUMMARY OF CONSOLIDATED STATEMENTS OF EARNINGS for the years ended on the dates shown
(in thousands, except where amounts are given on a per-share basis)

Adjusted for stock splits in 1967 and 1969	December 31 1970	December 31 1969	December 31 1968
REVENUE			
Sales	$74,052	$47,811	$33,189
Income from oil and gas sub-leases	3,904	1,878	732
Installation rentals earned	1,836	1,681	1,499
Interest and other income	2,935	1,699	1,365
	82,727	53,069	36,785
EXPENSES			
Cost of sales	47,225	27,671	17,376
Operating, selling and administrative expenses	17,703	12,320	9,748
Interest and expense on long term debt	2,749	1,983	1,286
Depreciation and depletion	7,075	4,603	3,256
Minority interest in earnings	302	255	197
	75,054	46,832	31,863
EARNINGS			
Earnings before income taxes	7,673	6,237	4,922
Income taxes	1,547	1,071	1,062
Net earnings for the year	6,126	5,166	3,860
Extraordinary items	—	—	—
Net earnings and extraordinary items	6,126	5,166	3,860
Dividends on preferred shares	643	636	657
Net earnings applicable to common shares	$ 5,483	$ 4,530	$ 3,203

Financial and other information

Working capital	$15,964	$18,037	$ 7,092
Long term debt	42,876	30,618	20,960
Preferred shares	10,978	11,145	10,950
Common shareholders' equity	42,721	38,192	26,103
Common shareholders' equity per share	8.62	7.72	6.15
Earnings per common share	1.11	1.01	.76
Dividends per common share	.20	.20	.175
Cash flow from operations	12,979	9,582	7,117
Cash flow per share applicable to common shares	2.49	1.99	1.52
Purchase of fixed assets (net)	12,661	12,576	6,066
Fixed assets including cost of shares of subsidiaries over net book value	76,461	59,413	50,831
Gasoline and other petroleum products	37,327	15,580	2,914
Propane sales	22,868	19,801	18,685
Natural gas sales	6,728	5,868	5,100
Oil and gas production sales (including sub-leases)	4,283	2,231	1,041
Merchandise sales	6,045	5,610	5,329
Gallonage — total propane, gasoline and other petroleum products	319,113	180,262	124,341
Number of common shares outstanding at year-end	4,957	4,950	4,242

December 31 1967	December 31 1966	December 31 1965	March 31 1965	March 31 1964	March 31 1963	March 31 1962
$ 28,199	$15,879	$14,322	$13,503	$12,234	$10,412	$ 9,472
119	61	—	—	—	—	—
1,504	917	751	653	590	508	438
659	102	164	105	27	—	—
30,481	16,959	15,237	14,261	12,851	10,920	9,910
14,068	7,900	7,019	6,554	6,285	5,319	4,903
8,726	4,951	4,380	4,237	3,672	3,319	3,157
1,063	429	434	419	383	281	181
2,637	1,694	1,443	1,249	1,096	909	729
180	—	—	—	—	—	11
26,674	14,974	13,276	12,459	11,436	9,828	8,981
3,807	1,985	1,961	1,802	1,415	1,092	929
587	—	—	—	—	(42)	57
3,220	1,985	1,961	1,802	1,415	1,134	872
993	—	—	—	—	—	—
4,213	1,985	1,961	1,802	1,415	1,134	872
579	187	192	81	—	—	—
$ 3,634	$ 1,798	$ 1,769	$ 1,721	$ 1,415	$ 1,134	$ 872
$10,910	$ 3,056	$ 3,643	$ 6,334	$ 3,357	$ 3,068	$ 2,158
19,159	6,644	6,131	6,491	5,475	5,737	3,610
9,849	3,365	3,452	3,500	—	—	—
23,421	14,255	12,833	11,901	10,607	9,274	8,199
5.57	4.46	4.03	3.74	3.39	3.04	2.72
.63	.56	.56	.54	.45	.37	.29
.14	.125	.125	.11	.075	.05	.05
5,857	3,680	3,338	2,989	2,365	1,876	1,577
1.26	1.09	.99	.91	.75	.62	.52
1,075	4,173	4,233	3,919	1,757	2,943	2,299
44,218	20,897	18,372	15,567	12,841	12,105	10,044
588	466	—	—	—	—	—
17,270	11,097	9,695	9,105	8,045	6,675	6,157
4,407	—	—	—	—	—	—
421	185	117	105	—	—	—
4,711	3,650	3,498	3,327	3,230	2,983	2,671
102,976	75,658	64,403	57,570	48,865	39,210	35,425
4,204	3,194	3,186	3,182	3,133	3,048	3,016

PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

Consolidated Hydrocarbons Limited
Great Northern Gas Utilities Ltd.
Fort St. John Petroleums Ltd.
Canadian Homestead Oils Limited
Castle Oil & Gas Limited
Consolidated Hydrocarbons, Inc.
Westland Oil Company
Big West Oil Company of Montana
North American Uranium Corporation

OFFICERS OF PRINCIPAL OPERATING SUBSIDIARIES AND ASSOCIATED COMPANIES

Consolidated Hydrocarbons Limited

Gerald M. Miller, *President*
Donald C. Ferns, *Vice-President, Marketing*
Kaj. W. Larsen, *Vice-President, Western Canada Region*
Jack Klym, *Vice-President, Planning and Development*
Jean Louis Penault, *Vice-President, Quebec and Maritimes Region*
Dennis A. Anderson, *Vice-President and Treasurer*
Raymond H. Hipfner, *Vice-President, Administration*
William A. Troughton, *Secretary*
Alfred D. Friesen, *Controller*
John G. Montgomery, *Assistant Secretary*

Great Northern Gas Utilities Ltd.

Anthony C. Rooney, *President*
Robert C. Wharton, *Vice-President, Operations*
Ernest W. Straus, *Vice-President, Administration and Treasurer*
William A. Troughton, *Secretary*

Fort St. John Petroleums Ltd.

Michael J. Walton, *President*
Anthony C. Rooney, *Vice-President*
Gerald M. Miller, *Vice-President*
Dennis A. Anderson, *Treasurer*
William A. Troughton, *Secretary*
John G. Montgomery, *Assistant Treasurer and Assistant Secretary*

Canadian Homestead Oils Limited

Bruce W. Watson, *President*
A. Gordon Savage, *Vice-President, Operations*
Duane E. Wikant, *Vice-President and Treasurer*
John M. Robertson, *Q.C., Secretary*

Consolidated Hydrocarbons, Inc.

Gerald M. Miller, *President*
Forrest Baker, *Vice-President*
Dennis A. Anderson, *Treasurer and Assistant Secretary*
William A. Troughton, *Secretary*
Raymond H. Hipfner, *Controller*
John G. Montgomery, *Assistant Secretary and Assistant Treasurer*

Westland Oil Company

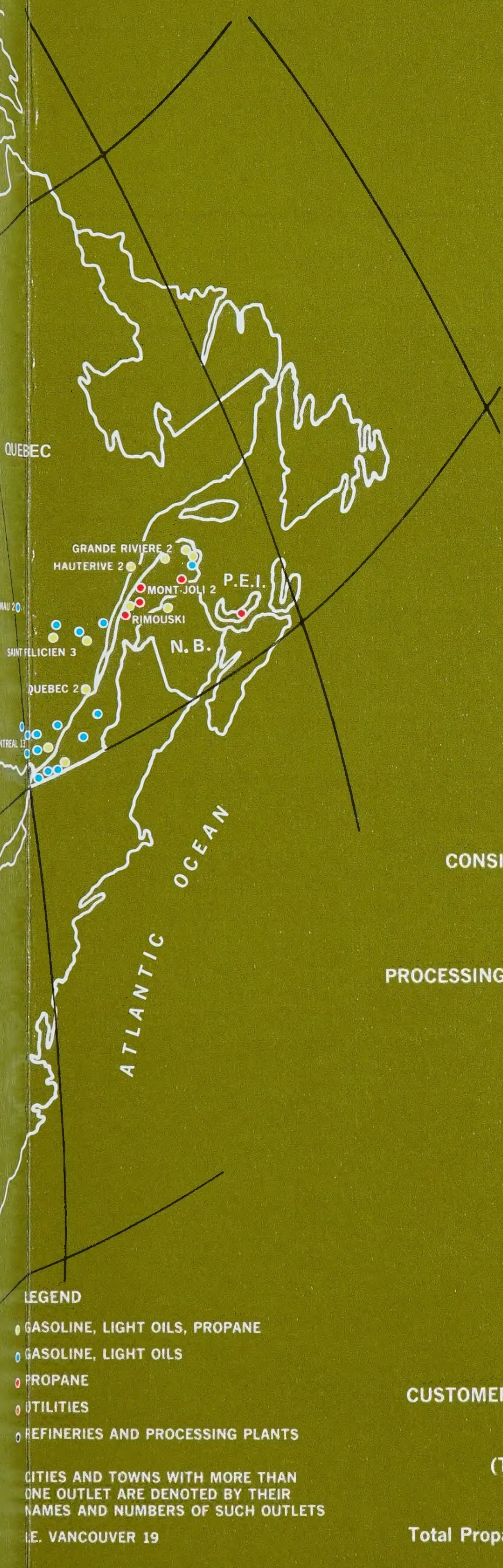
Gerald M. Miller, *President*
Forrest Baker, *Vice-President*
John C. Peterson, *General Manager*
Dennis A. Anderson, *Treasurer*
William A. Troughton, *Secretary*
Bernnett G. Grudem, *Controller*
John G. Montgomery, *Assistant Secretary and Assistant Treasurer*

Big West Oil Company of Montana

Raymond A. Rich, *President*
Michael H. Finnell, *Vice-President*
Forrest Baker, *Vice-President*
John L. Farrell, Jr., *Secretary-Treasurer*
Thomas S. Weary, *Assistant Secretary*

◄ Map showing the geographical distribution of the Company's operations across Canada and in the United States.

Tri-Graphics
CALGARY
CALGARY
IN CANADA



MAJOR FACILITIES AND DISTRIBUTION LOCATIONS

	1970 TOTAL
FRANCHISES	
Gas	77
Electrical	1
RETAIL OUTLETS	
— Propane	141
— Petroleum Products	125
— Fertilizer	6
STORAGE POINTS	28
CONSIGNEE OPERATED OUTLETS	
— Propane	49
— Petroleum Products	147
— Fertilizer	4
PROCESSING PLANTS AND REFINERIES	8
MOTOR HOTEL	1
RAILWAY TANK CARS	190
HIGHWAY TRANSPORTS	
— Propane	37
— Petroleum Products	16
DELIVERY TRUCKS	
— Propane	263
— Petroleum Products	64
SERVICE TRUCKS	388
EMPLOYEES	1,349
CUSTOMERS (PROPANE & UTILITIES)	161,967
MILES OF PIPELINE (Transmission & Distribution)	2,520
STORAGE FACILITIES Total Propane Field Storage Gallonage	48,305,373

CANADIAN HYDROCARBONS LIMITED
1970 Annual Report